CALIFORNIA TREASURER PHIL ANGELIDES
Protecting Shareholders and Our Financial Markets

In response to the wave of corporate scandals that rocked the financial marketplace and cost investors trillions of dollars, California State Treasurer Phil Angelides has taken the lead in organizing investors in a national movement for corporate reform. Working with investment and pension fund leaders from across the nation, the Treasurer has taken a series of steps designed to restore integrity to the corporate boardroom, renew investors' confidence in the financial markets, and foster sustained economic prosperity.

The Treasurer's agenda for corporate reform was set out in a report released in December 2002, *The Power of the Purse: How Investors Can Restore Integrity to Our Financial Markets*, which urged institutional investors, in particular, to use their clout to seek changes in corporate business practices, for the benefit of shareholders and the nation's economy. (The report and this document are available on the Treasurer's website: www.treasurer.ca.gov).

The following is a summary of some of the actions Treasurer Angelides has taken to protect the financial security of millions of American taxpayers, pensioners, and investors.

PROTECTED INVESTORS IN THE FINANCIAL MARKETPLACE

July 1, 2002 Treasurer Angelides joins New York Attorney General Eliot Spitzer, North Carolina Treasurer Richard Moore and then-New York Comptroller Carl McCall in adopting a set of Investment Protection Principles, which require investment banks and money managers to meet new standards of disclosure and eliminate their conflicts of interest or risk losing the right to do business with their respective states. At the Treasurer's urging, these principles are later also adopted by CalPERS and CalSTRS.

July 16, 2002 CalPERS and CalSTRS, with the support of Treasurer Angelides, sue WorldCom Inc. executives and their team of underwriting banks to recover losses stemming from investments in WorldCom bonds. The suit charges that the company clearly knew – and the banks clearly had reason to know – that the WorldCom books falsely portrayed the company's true financial picture. The fraud-induced collapse of the telecommunications company alone cost CalPERS and CalSTRS pensioners and their families more than $800 million. In November 2002 – again with the Treasurer's support – CalPERS sues some of the country's largest investment banks, alleging that the banks touted Enron bonds even as they knew the company was on the brink of disaster. Enron's collapse cost CalPERS and CalSTRS pensioners and their families over $150 million.

August 12, 2002 Treasurer Angelides co-convenes an Investor Summit of public financial leaders from 14 states, responsible for the investment of more than $1 trillion in assets, to develop an agenda for common action. At the meeting, the group vows to work collectively to expand the drive for corporate accountability.

October 2, 2002 At the Treasurer's urging, CalSTRS votes to make its proxy policies and votes public on its website; urges its money managers to disclose their proxy policies and votes; and urges the U.S. Securities and Exchange Commission (SEC) to adopt strong regulations requiring disclosure of proxy votes by mutual funds. Also at his urging, in November, CalPERS takes similar action with regard to its money managers and the SEC.

October 24, 2002

The Treasurer's Office completes its initial review of investment bank compliance with the Investment Protection Principles, notifies 22 banks that their level of compliance is unacceptable, and sets a January 15, 2003 deadline for full compliance. One firm, HSBC, is notified of the Treasurer's intent to suspend it for noncompliance with the Principles, making it ineligible to do business with the State's $50 billion investment pool. HSBC responds by agreeing to fully comply with the principles.

May 8, 2003

Acting in the wake of the landmark settlement of enforcement actions against 10 large investment banks, Treasurer Angelides imposes tough new requirements, called Investment Protection Standards, on all investment banks that want to do business with the State. The action makes California the first state in the nation to apply and expand the tough new reforms of the Wall Street settlement to each of the 69 firms eligible to handle issuance of State bonds and the 57 broker/dealer firms that do business with the State's investment fund and that provide both research and investment banking services to the marketplace. These tougher new standards replace the Investment Protection Principles adopted in July 2002. CalSTRS adopts the new standards on July 9, 2003, and CalPERS adopts them on August 18, 2003. By March 2004, all 44 firms determined to be subject to the Standards agree to comply with Treasurer Angelides' new standards.

January 15, 2004

Treasurer Angelides, New York State Comptroller Alan Hevesi, and North Carolina Treasurer Richard Moore – joined by New York Attorney General Eliot Spitzer – announce a set of Mutual Fund Protection Principles which will apply to all mutual funds hired by the states and their public pension funds and that the chief investment officers say should be a standard for the whole industry. The proposed principles call for a wide range of reforms to shareholder disclosure and reporting; mutual fund board structure; management compensation reporting; and mutual fund disclosure of security holdings, trading costs and accounting of "soft dollar" expenditures. In California, the principles are also adopted by CalPERS, CalSTRS, and the ScholarShare Investment Board, which administers the State's $1 billion-plus college savings plan.

September 23, 2004

Treasurer Angelides, joined by CalPERS Investment Committee Chair Rob Feckner, CalSTRS Chief Executive Officer Jack Ehnes, and Putnam Investments President and Chief Executive Officer Charles "Ed" Haldeman, Jr., announces that Putnam Investments made a groundbreaking commitment to a broad array of new protections and disclosures for its investors, and would launch a review of how they cast their shareholder votes to ensure more reasonable executive pay at publicly traded corporations. As a result of Putnam's new commitments, the company once again becomes eligible to compete for business with CalPERS and CalSTRS. Putnam's reforms come nine months after CalPERS and CalSTRS, at the Treasurer's urging, terminated their combined $1.5 billion contracts with Putnam in December 2003. At the time, Putnam was embroiled in controversy over its corporate practices, including allegedly engaging in unlawful "market timing" practices. The reforms agreed to by Putnam set a new standard for the mutual fund industry.

LED EFFORTS TO RESTORE CREDIBILITY TO THE NEW YORK STOCK EXCHANGE

September 16, 2003 Treasurer Angelides becomes the nation's first elected public official to call for the resignation of NYSE Chairman and CEO Dick Grasso, following revelations regarding Grasso's excessive $188 million pay package and the process by which it was negotiated. The Treasurer – joined by Sean Harrigan, President of the CalPERS Board of Administration and CalSTRS CEO Jack Ehnes – contends that Grasso's compensation package sets back critical efforts to restore the public's faith in our financial system, and threatens the Exchange's integrity and ability to provide critical leadership in the area of corporate reform. Their announcement immediately sets off a national chorus of other officials joining the call for Grasso's resignation. Grasso resigns as chairman and CEO of the Exchange the next day.

September 24, 2003 Treasurer Angelides leads a national delegation of state treasurers, chief investment officers and public pension fund officials to New York, where they meet with members of the NYSE Board of Directors to demand: fundamental governance reforms at the Exchange; a reduction in Grasso's outsized compensation; and a thorough, independent investigation into the NYSE's operations and governance, including the events which led to Grasso's pay package. The coalition of state treasurers, comptrollers, and others succeed in prompting the NYSE to conduct an independent investigation and to undertake significant governance reforms, including a separation of the NYSE's chairman and CEO positions.

October 14, 2003 Treasurer Angelides and a coalition of state treasurers and public pension fund leaders meet with NYSE interim chairman John Reed, who confirms that he has launched an independent probe of the Exchange, as requested by Treasurer Angelides and his colleagues. The results of that NYSE investigation have since prompted New York State Attorney General Eliot Spitzer to take legal action to recover at least $100 million of Grasso's pay.

December 16, 2003 Treasurer Angelides and other CalPERS trustees announce that CalPERS has filed a class action lawsuit against the NYSE and seven specialist trading firms, alleging that the Exchange and the firms "pursued a fraudulent scheme" to bilk investors out of at least $150 million by shortchanging them in trillions of dollars worth of trades over a five-year period.

CALLED ON CORPORATE EXPATRIATES TO "COME HOME TO AMERICA"

July 25, 2002 The Treasurer prohibits investments in, and business dealings with, expatriate U.S. corporations that relocate offshore – in name only – to avoid taxes and weaken legal protections for shareholders.

November 18, 2002 CalPERS, at the request of Treasurer Angelides, launches a drive against the deceptive practice of corporate expatriation, voting to spearhead shareholder resolutions at McDermott International, Tyco International and Ingersoll-Rand, urging them to repatriate. In December, CalSTRS takes similar action with respect to Tyco and Ingersoll-Rand.

December 5, 2002 The Treasurer initiates a national effort by major institutional investors to urge Standard & Poor's to remove expatriate corporations from the S&P 500 Index, which S&P describes as the "premier index for large cap U.S. stocks." Nine state finance officials join this effort.

March 6, 2003 Treasurer Angelides, public pension funds, other state and local finance officials, and union pension funds join together to score significant victories in the fight against corporate expatriation. As a result of the "Come Home to America Campaign," more than 26 percent of Tyco International shareholders vote, on March 6, 2003, to leave Bermuda and bring Tyco back to the United States; on March 25, 2003, McDermott International agrees to work toward reincorporating from Panama back to the U.S.; and on March 30, 2003, a stunning 41.4 percent of Ingersoll-Rand shareholders vote to abandon their Bermuda "headquarters" and reincorporate in the U.S.

March 26, 2003 Treasurer Angelides sponsors legislation to ban state contracts with expatriate corporations and to close state tax loopholes that benefit those companies. Senate Bill 640, introduced by state Senator John Burton, is later enacted into law, prohibiting State agencies from contracting with publicly held U.S. corporations that have expatriated. Another measure, Senate Bill 1067, authored by Senator Jackie Speier, would close tax loopholes that allow expatriates to annually avoid an estimated $10 million in California taxes. This measure fails in the Senate by only one vote, but Treasurer Angelides continues the fight to close this loophole by sponsoring Assembly Bill 441, by Assemblymember Judy Chu, in the current legislative session.

PUSHED TO TIE EXECUTIVE PAY TO PERFORMANCE

April 17, 2003 Treasurer Angelides proposes new standards for equity compensation plans – including stock options – for the 1,000 largest companies in which the State's two large public pension funds invest their money. The goal of Treasurer Angelides' proposal is to encourage the adoption of broad-based equity compensation plans that reward executives and company workers for creating long-term sustained value for shareholders. Under Angelides' proposal, CalPERS and CalSTRS would vote to support equity compensation plans if the plans award 5 percent or less of the total compensation to the top five executives of the company. In addition, the plans must provide vesting schedules of four years or longer. On June 16, 2003, these standards are adopted at CalPERS. On July 9, 2003, CalSTRS adopts the "5 percent" standard and agrees to encourage minimum vesting periods of five years.

June 14, 2004 At the urging of Treasurer Angelides and CalPERS Board of Administration President Sean Harrigan, CalPERS announces its opposition to the proposed merger of WellPoint Health Networks, Inc. and Anthem, Inc., given the "egregiously unwarranted" compensation that would be awarded to top WellPoint executives upon the merger's completion. The pension fund, a significant shareholder in both companies, also announces that it will ask other shareholders to oppose the merger because WellPoint's executives stand to receive excessive bonus and severance payments of as much as $600 million, no matter how the merged firm performs for shareholders over the long term. At the Treasurer's urging, CalSTRS also votes its shares against the merger. The Treasurer also urges

Governor Arnold Schwarzenegger's Department of Managed Care to disapprove the merger, but the Department gives its approval to the transaction.

November 9, 2004 To draw public attention to egregious executive compensation at poorly performing companies and put such companies on notice to reform their compensation plans, Treasurer Angelides unveils a "Spotlight Four List" of four poorly performing companies whose top executives hauled down the lion's share of stock options and grants given by the companies. He also calls on CalPERS and CalSTRS to take whatever actions are necessary – if the companies do not act on their own – to prod the companies to reform their executive pay practices by curbing excessive compensation, broadening the distribution of their equity compensation plans to more employees, and clearly linking compensation to performance. Those actions could include calling on other institutional investors to join CalPERS and CalSTRS in waging a coordinated proxy ballot campaign in 2005. In response to Treasurer Angelides' leadership, CalPERS and CalSTRS adopt policies to encourage companies to tie executive pay to long-term performance, and decide to target abusive pay policies at poorly performing companies.

FOUGHT TO EXPAND SHAREHOLDER RIGHTS

June 30, 2003 Treasurer Angelides, joined by the chief investment officers of six other states, calls on SEC Chairman William Donaldson to move quickly to complete reforms on issues crucial to the protection of shareholders. Angelides and the others release a "progress report" that gives the SEC under Donaldson grades of "incomplete" on three crucial reforms: democratizing "management-controlled" corporate elections; halting brokers' ability to stuff corporate ballots for management; and stopping corporations from co-opting accounting firms with lucrative tax consulting contracts.

October 2, 2003 Treasurer Angelides and 10 other state and local pension fund officials again call on the SEC to ensure proxy access to shareholders. They argue that the SEC's proposed rules for proxy access contain excessively restrictive "triggers" that would effectively block shareholders from using proxy access to nominate director candidates and challenge ineffective boards.

May 27, 2004 Treasurer Angelides, joined by other state chief investment officers and pension fund chiefs, sends letters to SEC Chairman William Donaldson, calling on him to embrace meaningful shareholder voting rights for the directors of publicly traded companies.